

CITY STORES COMPANY

ANNUAL REPORT



JANUARY 31, 1953

BOARD
q658.27
C498r

HIGHLIGHTS OF THE YEAR

	<u>Year Ended</u>	
	<u>January 31, 1953</u>	<u>February 2, 1952</u>
Net Retail Sales	\$232,432,000	\$219,243,000
Net Income (including unconsolidated subsidiaries)	4,411,000	3,145,000
Earnings per average common share outstanding	1.91	1.38
Dividends:		
Preferred Stock	484,000	447,000
Per Share	4.25	4.25
Common Stock	2,877,000	2,748,000
Per Share	1.40	1.40
Current Assets	87,449,000	79,758,000
Current Liabilities	26,854,000	24,760,000
Working Capital	60,595,000	54,998,000
Current Ratio	3.26	3.22
Property and Equipment	24,135,000	25,719,000
Long-Term Debt	27,036,000	23,019,000
Capital Stock and Surplus	59,496,000	58,855,000
Common Stock Equity	48,185,000	47,322,000
Common Stock Equity Per Share	23.47	23.03

CITY STORES COMPANY

739 MARKET STREET
PHILADELPHIA 5, PA.

LIT BROTHERS

Philadelphia, Pa.

Established 1891

Branch

Lit 69th Street

Upper Darby, Pa. 1949

SWERN & COMPANY

Trenton, New Jersey

Established 1885

MAISON BLANCHE

New Orleans, Louisiana

Established 1887

Branches

Carrollton, New Orleans, La. 1942

Gentilly, New Orleans, La. 1947

LOVEMAN, JOSEPH & LOEB

Birmingham, Alabama

Established 1887

LANSBURGH'S

Washington, D. C.

Established 1860

B. LOWENSTEIN & BROS., INC.

Memphis, Tennessee

Established 1855

Branches

Lowenstein's Home Service, Inc.

Memphis, Tennessee 1944

Lowenstein's "East"

Memphis, Tennessee 1948

KAUFMAN-STRAUS COMPANY

Louisville, Kentucky

Established 1879

R. H. WHITE CORPORATION

Boston, Massachusetts

Established 1853

RICHARD'S

Miami, Florida

Established 1896

WISE, SMITH & COMPANY, INC.

Hartford, Connecticut

Established 1889

CITY SPECIALTY STORES, INC.

New York, N. Y.

OPPENHEIM, COLLINS

New York, N. Y. 1901

Philadelphia, Pa. 1903

Buffalo, N. Y. 1905

Brooklyn, N. Y. 1906

Garden City, N. Y. 1938

East Orange, N. J. 1946

Morristown, N. J. 1947

Germantown, Phila. 1948

Hackensack, N. J. 1950

Huntington, N. Y. 1951

Haddonfield, N. J. 1952

Wilmington, Del. 1952

FRANKLIN SIMON

New York, N. Y. 1902

Greenwich, Conn. 1932

East Orange, N. J. 1940

Cleveland, Ohio 1941

Garden City, N. Y. 1946

Washington, D. C. 1948

Atlanta, Ga. 1948

Newton, Mass. 1950

Westport, Conn. 1951

Philadelphia, Pa. 1952

CITY STORES COMPANY

OFFICERS

ALBERT M. GREENFIELD	<i>Chairman of the Board</i>
SAUL COHN	<i>Vice Chairman of the Board</i>
HERBERT J. SCHWARTZ	<i>President</i>
ALLAN INTRILIGATOR	<i>Vice President and Treasurer</i>
HAROLD W. BRIGHTMAN	<i>Vice President</i>
GORDON K. GREENFIELD	<i>Vice President</i>
ISIDORE NEWMAN, II	<i>Vice President</i>
MAX ROBB	<i>Vice President</i>
O. W. SCHANBACHER	<i>Vice President</i>
MILTON A. KAMSLER	<i>Secretary</i>
IRVING J. ZIPIN	<i>Assistant Secretary</i>
GEORGE D. LEWIS	<i>Assistant Secretary</i>
B. C. MOISE	<i>Assistant Secretary</i>
BENJAMIN SCHNECK	<i>Assistant Treasurer</i>
J. KARL FISHBACH	<i>Assistant Treasurer</i>

DIRECTORS

GUSTAVE G. AMSTERDAM Philadelphia, Pa.	ANTHONY G. FELIX Philadelphia, Pa.	DANIEL O. MORTON New York, N. Y.
C. GORDON ANDERSON Miami, Fla.	STANLEY FOLZ Philadelphia, Pa.	ISIDORE NEWMAN, II New Orleans, La.
JAMES H. BECKER Chicago, Ill.	RALPH L. GOLDSMITH Washington, D. C.	MAX ROBB Philadelphia, Pa.
MURRY C. BECKER New York, N. Y.	ALBERT M. GREENFIELD Philadelphia, Pa.	HARRY W. SCHACTER Louisville, Ky.
DAVID BORTIN Philadelphia, Pa.	GORDON K. GREENFIELD New York, N. Y.	O. W. SCHANBACHER Birmingham, Ala.
HAROLD W. BRIGHTMAN Philadelphia, Pa.	JOSEPH A. W. IGLEHART New York, N. Y.	AARON R. SCHARFF Memphis, Tenn.
J. J. CAPRANO Philadelphia, Pa.	ALLAN INTRILIGATOR New York, N. Y.	HERBERT J. SCHWARTZ New York, N. Y.
SAUL COHN New York, N. Y.	GEORGE H. JOHNSON Philadelphia, Pa.	SERGE SEMENENKO Boston, Mass.
CLEMENT V. CONOLE New York, N. Y.		HAROLD D. WIMPFHEIMER New York, N. Y.

AUDITORS

ERNST & ERNST
120 Broadway
New York, N. Y.

COUNSEL

FOLZ, BARD, KAMSLER, GOODIS & GREENFIELD
1315 Walnut Street
Philadelphia, Pa.

TRANSFER AGENTS

PREFERRED AND COMMON STOCK — The Chase National Bank of the City of New York,
11 Broad Street, New York, N. Y.

REGISTRARS

PREFERRED AND COMMON STOCK — Bank of the Manhattan Company,
40 Wall Street, New York, N. Y.

ANNUAL REPORT

April 29, 1953

To the Stockholders of City Stores Company:

During 1952, sales, earnings and working capital of your Company reflect its increased progress. Greater expense control was achieved. These results, highlighted on a previous page, together with the report of our independent auditors, Ernst & Ernst, and customary financial statements are included in this report.

SALES

Sales of your Company for the fiscal year 1952 were \$232,431,558 compared with \$219,243,471, showing an increase of 6%, and were the largest in its history. Sales of Lansburgh & Bro. were included for a full year against the sales of this unit from August 26, 1951 for the prior year.

EARNINGS AND DIVIDENDS

Earnings of your Company and subsidiaries, after all charges, amounted to \$4,411,235 compared with \$3,144,733, which is \$1.91 per share against \$1.38 per share of common stock in 1951, based on the average number of shares outstanding during each year. These increased earnings result from better inventory and expense controls and evidence the growing importance of our stores in their respective communities.

Dividends on the common stock for the past year were continued at the annual rate of \$1.40 per share.

CURRENT FINANCIAL POSITION

Working capital rose from \$54,998,450 to \$60,594,456, an increase of \$5,596,006 over last year, a large part of which is reflected in increased cash and customer accounts receivable.

Merchandise inventories were \$28,247,894 compared with \$27,504,915. LIFO reserves were reduced by \$510,907 making total LIFO reserves of \$4,566,069. Inventory agings show the best condition in our history and stocks are current and healthy.

LONG-TERM FINANCING

In accordance with our loan agreement with The Prudential Insurance Company of America, an additional \$5,000,000 was borrowed by the Company on May 29, 1952. On April 2, 1953, the final \$5,000,000 was borrowed pursuant to the same agreement. The Prudential long-term debt is now \$23,500,000 and, as previously reported, bears interest at $3\frac{3}{4}\%$ and matures November 1, 1971. The loan with The First National Bank of Boston, as reported last year, is \$1,500,000, matures November 1, 1956 and bears interest at the rate of $3\frac{1}{4}\%$ per annum.

EXPANSIONS AND IMPROVEMENTS

The Company has continued to maintain modern, up-to-date facilities in its main store units, and has given impetus to its policy of expansion by adding branch stores in the rapidly growing areas in which these units are located.

Lit Brothers

In conjunction with Food Fair Stores, Inc., operators of a large chain of food super markets, Lit Brothers division has undertaken the development of a shopping center in the growing and heavily populated Northeast section of Philadelphia. Food Fair will operate the food market in the development and Lit Brothers the department store, which will consist of a completely modern, air-conditioned three-story and basement building of approximately 150,000 square feet. Additional stores in the

development will be leased to various other enterprises. Parking space, sufficient to accommodate about 1,000 automobiles, will be provided. It is anticipated that the store will be opened on or before October 1, 1953.

The 69th Street branch of Lit Brothers, which has produced gratifying results since its opening in late 1949, is adding 7,000 square feet of selling space on the street floor fronting on 69th Street. These additions will bring the total space of this unit to 116,000 square feet and permit better location of selling areas as well as additions of new departments.

Maison Blanche

Maison Blanche division has acquired additional property in the rear of its present warehouse for the purpose of building a service store. This will enable the selling area of the Budget Annex to be increased from 15,000 to 30,000 square feet.

B. Lowenstein & Bros., Inc.

This company has entered into an agreement to add 48,000 square feet to its present suburban location, known as "Lowenstein's East", at the Highland and Poplar corner in Memphis, Tennessee. The new footage will bring the total area of this successful operation to 78,000 square feet. The expansion is a recognition of the great growth of population and industry in the Memphis area.

Loveman, Joseph & Loeb — Montgomery (Alabama) Store

A modern, air-conditioned store having a total area of 100,000 square feet, consisting of basement and two floors, complete with escalators, elevators and parking facilities for over 700 automobiles is to be constructed in the Normandale section of suburban Montgomery, Alabama, the fastest growing section of this city. This store will be operated under the name of "Loveman, Joseph & Loeb — Montgomery" and will be under the supervision of the executives of the Loveman, Joseph & Loeb store in Birmingham. The plans provide that the store will be ready for business by March 1, 1954.

R. H. White Corporation

A new basement and one-story building of 75,000 square feet is being constructed as a branch store for this subsidiary in the Lincoln Plaza Shopping Center at Worcester, Massachusetts. The building will be air-conditioned, contain adequate escalator and elevator service and will have parking facilities for over 5,000 automobiles. It is anticipated that this store will be open in October, 1953.

A new lease has been entered into by R. H. White Corporation for the construction of a modern one-story warehouse of 170,000 square feet in Needham Township, near Boston. It will replace the existing warehouse which has proved inadequate. The new property will effect savings in rental and operating costs and provide the most modern and efficient service for both the main store and the new Worcester branch.

FRANKLIN SIMON-OPPENHEIM COLLINS MERGER

It was deemed advisable to combine your Company's two specialty store subsidiaries by merging Oppenheim, Collins & Co., Inc. into Franklin Simon & Co. Inc., in order to achieve savings and benefits in operations. The merger became effective on January 30, 1953 and the corporate name of the merged enterprise was changed to City Specialty Stores, Inc. However, the respective units of the two groups continue to be operated as separate divisions under their former trade names. Additional facts regarding the merger are found in the notes to the financial statements.

Additional Branch Stores

Before the merger was completed, Oppenheim, Collins & Co., Inc., in August, 1952, opened a new store in Haddonfield, New Jersey, the results of which have been highly satisfactory.

An additional unit located in the Merchandise Mart on Governor Printz Highway in the northern suburbs of Wilmington, Delaware, was opened by Oppenheim Collins on November 20, 1952, in order to serve the rapidly growing surrounding community.

Lousols, a ladies' specialty store, located at Chestnut and Juniper Streets, in the heart of the business and shopping district of Philadelphia was acquired by the Franklin Simon division as of February 2, 1953. Plans are being made for substantially enlarging selling areas and for other improvements to this property.

PERSONNEL CHANGES

Serge Semenenko, Senior Vice President of The First National Bank of Boston, and Clement V. Conole, President of Hearn Department Stores, Inc., were elected directors of your Company.

Abraham Green was elected President of R. H. White Corporation to replace John B. Knox, who resigned on December 20, 1952. Mr. Green is a native of Boston and has had extensive experience in merchandise management.

J. Howard Denny resigned as President of Franklin Simon & Co. Inc., effective January, 1953. Gordon K. Greenfield, President of Oppenheim, Collins & Co., Inc., was elected President of the new City Specialty Stores, Inc.

Bernard B. Zients, Vice President of City Stores Mercantile Company, Inc., was named merchandising head of this service organization of your Company.

J. Karl Fishbach was elected Assistant Treasurer of the Company.

CONCLUSION

Your Company will continue to improve and modernize its main store facilities and to expand its various units, wherever advisable, through suburban stores and locations in nearby communities in order to serve best the demands of its customers and develop additional profitable sales volume.

Your Company is alert constantly to the problems of strengthening its personnel and the development of its young executives through intensive training and by affording to them opportunities for advancement. The employees of your Company continue to serve with loyalty and energy. The relationships with resources grow in mutual cooperation and cordiality. In view of the foregoing, we face the future with confidence and enthusiasm.

Respectfully submitted,

HERBERT J. SCHWARTZ

President

ALBERT M. GREENFIELD

Chairman of the Board

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF INCOME

	Year Ended	
	January 31, 1953	February 2, 1952
Net sales (including leased departments)	\$232,431,558	\$219,243,471
Deduct:		
Cost of goods sold and operating expenses	221,939,372	211,729,284
Depreciation and amortization	2,249,382	2,077,135
Interest and debt expense	1,196,590	876,789
	<u>\$225,385,344</u>	<u>\$214,683,208</u>
	\$ 7,046,214	\$ 4,560,263
Carrying charges on customers' installment accounts	1,665,299	1,256,627
Miscellaneous other income — net	318,707	419,979
	<u>\$ 9,030,220</u>	<u>\$ 6,236,869</u>
Federal taxes on income — Note B	4,765,654	3,171,511
	<u>\$ 4,264,566</u>	<u>\$ 3,065,358</u>
Net income	47,429	92,998
Less minority share of income		
	<u>\$ 4,217,137</u>	<u>\$ 2,972,360</u>
Net income applicable to City Stores Company—Note H		
Net income of unconsolidated subsidiaries, applicable to City Stores Company, not included above	<u>\$ 194,098</u>	<u>\$ 172,373</u>

Certain amounts for last year have been reclassified to the current basis.

STATEMENT OF SURPLUS

	Year Ended
	January 31, 1953
CAPITAL SURPLUS	
Balance — February 2, 1952	\$ 10,357,616
Excess of par value over cost of preferred stock reacquired	34,451
Net adjustment of equities in certain subsidiaries	18,681*
	<u>\$ 10,373,386</u>
Balance — January 31, 1953	
EARNED SURPLUS	
Balance — February 2, 1952	\$ 25,930,183
Gross profit and carrying charges deferred on books as of February 2, 1952, less applicable federal income tax — Note H	760,361
	<u>\$ 26,690,544</u>
Balance — February 2, 1952 as adjusted	4,217,137
Net profit for the year	
	<u>\$ 30,907,681</u>
Deduct dividends declared on:	
Preferred Stock — \$4.25 per share	\$ 483,538
Common Stock — \$1.40 per share	2,876,649
	<u>3,360,187</u>
Balance — January 31, 1953	<u>\$ 27,547,494</u>

* Denotes deduction.

Notes referred to follow.

CITY STORES COMPANY AND STATEMENT OF

ASSETS

	January 31, 1953	February 2, 1952
CURRENT ASSETS		
Cash	\$ 11,079,542	\$ 9,048,795
U. S. Government securities — at cost	40,400	20,200
Accounts receivable, customers and others, less allowances for doubtful ..	45,997,170	40,807,906
Merchandise inventories — Note A	28,247,894	27,504,915
Supplies and prepaid items	2,083,782	2,376,162
TOTAL CURRENT ASSETS	\$ 87,448,788	\$ 79,757,978
INVESTMENTS AND OTHER ASSETS		
Investments in and advances to unconsolidated real estate subsidiaries — see page 10	1,510,855	1,563,281
U. S. Government securities deposited as security under lease	136,350	156,550
Capital stock of parent company	53,800	53,800
Mortgages receivable, sundry investments and other items	1,306,188	891,344
Refundable income and excess profits taxes of prior years — estimated ...	845,506	886,964
	\$ 3,852,699	\$ 3,551,939
PROPERTY AND EQUIPMENT		
Land, buildings, leaseholds, fixtures and equipment — at cost	40,255,617	40,119,575
Less accumulated depreciation and amortization	16,120,477	14,400,624
	\$ 24,135,140	\$ 25,718,951
UNAMORTIZED DEBT EXPENSE	293,074	282,274
	\$115,729,701	\$109,311,142

Certain amounts for last year have been reclassified to the current basis.
Notes referred to follow.

CONSOLIDATED SUBSIDIARIES FINANCIAL CONDITION

LIABILITIES

	January 31, 1953	February 2, 1952
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 17,322,461	\$ 17,045,709
Dividends payable	719,162	8,547
Federal taxes on income — estimated — Note B	7,292,179	5,812,121
Portion of long-term debt due within one year	683,069	930,913
Reserves for purchase discounts and mark-downs	837,461	962,238
TOTAL CURRENT LIABILITIES	\$ 26,854,332	\$ 24,759,528
LONG-TERM DEBT		
Notes payable — Note C	20,810,000	16,420,000
4% Sinking Fund Debentures (subordinated) — Note D	5,100,000	5,400,000
Mortgages payable	1,126,266	1,199,335
	\$ 27,036,266	\$ 23,019,335
RESERVES		
For redemption of trading stamps and for self-insurance	1,084,310	1,035,714
For restoration of leased properties	441,899	441,899
	\$ 1,526,209	\$ 1,477,613
MINORITY INTERESTS — Note E		
Preferred stock	529,544	826,900
Common stock	286,973	372,799
	\$ 816,517	\$ 1,199,699
CAPITAL STOCK AND SURPLUS		
Preferred Stock — \$100.00 par value — authorized 150,000 shares:		
4¼% Convertible Preferred Stock — 113,105 shares outstanding		
(7,241 shares in treasury) — Note F	11,310,543	11,533,043
Common Stock — \$5.00 par value — authorized 3,000,000 shares:		
2,052,990 shares outstanding (12,423 shares in treasury) — Note G.	10,264,954	10,273,764
Capital surplus	10,373,386	10,357,616
Earned surplus — Notes B, C, D and H	27,547,494	26,690,544
	\$ 59,496,377	\$ 58,854,967
Long-Term Leases — Note I	\$115,729,701	\$109,311,142

UNCONSOLIDATED REAL ESTATE SUBSIDIARIES

COMBINED STATEMENT OF FINANCIAL CONDITION

Maison Blanche Corporation
 Loveman, Joseph & Loeb, Inc.
 The Franklin Simon Realty Corporation

Richard Store Corporation
 R. H. White Realty Co., Inc.
 Oppenheim Collins Corp. and subsidiary

ASSETS

	January 31, 1953	February 2, 1952
Cash	\$ 100,446	\$ 123,158
Due from tenants and others	39,884	34,884
Due from parent companies	225,824	252,851
Prepaid expenses	24,113	21,745
Land, buildings, leaseholds and equipment — at cost	16,313,392	16,054,115
Less accumulated depreciation and amortization	4,778,796	4,396,235
	<u>\$ 11,534,596</u>	<u>\$ 11,657,880</u>
Unamortized mortgage expense	60,212	65,961
	<u>\$ 11,985,075</u>	<u>\$ 12,156,479</u>

LIABILITIES

Accounts payable and accrued expenses	\$ 155,296	\$ 197,136
Federal taxes on income — estimated	182,400	124,722
Mortgages and loan payable (including installments due within one year of \$365,128 and \$336,492 respectively)	9,710,361	10,038,556
Equity of City Stores Company and subsidiaries:*		
Advances from parent companies	1,684,473	1,775,221
Capital stocks and surplus	252,545	20,844
	<u>\$ 1,937,018</u>	<u>\$ 1,796,065</u>
	<u>\$ 11,985,075</u>	<u>\$ 12,156,479</u>

*Total equity shown on statement of financial condition of City Stores Company and consolidated subsidiaries at \$1,510,855.

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

January 31, 1953

Note A—Merchandise inventories were determined generally according to the retail inventory method and were priced in substantial part according to the LIFO method (before reserves for discounts and markdowns shown under current liabilities), and the balance, generally, at the lower of cost or market. Inventories priced according to the LIFO method are stated this year at \$4,566,069 and last year at \$5,076,976 less than they would have been if they had been priced at the lower of cost or market.

Note B—During the fiscal year ended January 31, 1946, Lit Brothers (now a division of City Stores Company) sold its main store property and concurrently with the sale, leased the property back from the buyer. In its returns for that year, the company claimed a deductible loss in respect of such sale. The company had received a ruling from the Bureau of Internal Revenue, supplemented by a closing agreement restricted to certain points in such ruling, stating in effect that any loss sustained on the sale of the property was deductible for tax purposes but not undertaking to establish the amount of loss.

NOTES TO FINANCIAL STATEMENTS (Continued)

On February 8, 1952, Lit Brothers received Revenue Agent's report for the fiscal years ended January 31, 1944 through 1948, in which adjustments were proposed which would result in net deficiencies in federal and state taxes of approximately \$5,525,000, exclusive of interest. This is \$4,985,000 in excess of reserves provided for this purpose. The report also proposes to disallow claims for refund of taxes on income which are being carried in the balance sheet at \$782,000. Protest has been filed by the Company with respect to all the adjustments and disallowances of claims, except certain adjustments amounting to approximately \$450,000 of tax liability. The principal item contested is the proposed disallowance of the loss on the sale of Lit Brothers' main store property, involving approximately \$4,750,000 of the taxes in controversy. The proposed disallowance of the loss by the Revenue Agent was not based upon determination by him of any factual points left unsettled by the Bureau's ruling to be established upon examination of the return and is, in the opinion of the Company's counsel diametrically opposed to the points established by the ruling and the closing agreement. In the opinion of Company's counsel, the closing agreement is binding on the Treasury Department.

The amounts of the liability for federal and state taxes on income reflected in the accompanying financial statements include no specific provision for additional assessments of prior years' taxes against City Stores Company and/or its subsidiaries, except as herein set forth.

Note C—Under a loan agreement, dated November 19, 1951, providing for a total credit of \$23,500,000 the Company borrowed \$18,500,000 from The Prudential Insurance Company of America, payable in annual installments on November 1 of each year in the amount of \$900,000 from 1957 to 1961, \$1,100,000 from 1962 to 1966 and \$1,200,000 from 1967 to 1970 and the balance on November 1, 1971. The balance of \$5,000,000 was borrowed on April 2, 1953.

Concurrently with said loan agreement, the Company borrowed \$1,500,000 from The First National Bank of Boston payable in equal annual installments of \$500,000 on November 1 of each year commencing in 1954.

It is provided in the loan agreements that, without the written consent of the obligees, the Company will not (a) permit its consolidated working capital at any time to be less than \$40,000,000 (\$42,500,000 upon the borrowing of the additional \$5,000,000) and (b) will not pay or declare dividends in any form other than stock of the Company, or acquire shares of any class of its capital stock unless after giving effect thereto, 100% of the consolidated net earnings (as defined) of the Company commencing February 1, 1950 (70% of the consolidated net earnings (as defined) commencing February 1, 1954) equal or exceed the sum of (1) dividends paid plus (2) the excess of the aggregate consideration paid on acquisition of any class of stock of the Company over the aggregate consideration received from the sale of shares of any class of its stock. This provision does not, however, prohibit the payment of fixed dividends on the preferred stock of the Company or the acquisition of such preferred stock to meet the requirements of the sinking fund. Consolidated net earnings (as defined) available for payment or declaration of cash dividends and for purchase or redemption of any shares of its capital stock during the fiscal quarter following January 31, 1953 aggregate \$1,065,704.

City Specialty Stores, Inc. at January 31, 1953 had promissory notes outstanding of \$750,000 after deducting \$550,000 included in current liabilities. Under the terms of a credit agreement, this subsidiary may only pay dividends on common stock to the extent that half of the net earnings of the preceding fiscal year exceeds the current dividend and sinking fund requirements of its preferred stock. No dividends on common stock of this subsidiary have been payable since acquisition of control by City Stores Company.

Note D—The Company is required to retire \$300,000 in principal amount of 4% Sinking Fund Debentures (Subordinated) annually, and is subject to certain restrictions with respect to the payment of dividends. At January 31, 1953, consolidated earned surplus of approximately \$6,273,624 was not restricted by the Indenture.

Note E—As of January 31, 1953, Oppenheim, Collins & Co., Inc. merged into Franklin Simon & Co. Inc. and the name of the latter was changed to City Specialty Stores, Inc., a New York corporation. The Agreement of Merger provided that the stockholders of Oppenheim, Collins & Co., Inc. receive 3 shares of common stock of City Specialty Stores, Inc. for each share of stock owned by them. The Franklin Simon preferred stock remained unchanged. Minority interests of City Stores Company at January 31, 1953 include 9,144 shares of 4½% preferred stock and 26,015 shares of common stock of City Specialty Stores, Inc. Holders of 3,120 shares of common stock of Oppenheim, Collins & Co., Inc. have not assented to the merger and no provision has been made in the accompanying financial statements for any amount other than the book equity underlying the shares owned by such dissenters.

Note F—The 4¼% Convertible Preferred Stock is convertible on or before February 1, 1966 into shares of Common Stock of the Company on the basis of specified common share valuations.

NOTES TO FINANCIAL STATEMENTS (Continued)

Beginning May 1, 1953, the 4 $\frac{1}{4}$ % Convertible Preferred Stock is entitled to the benefit of a Sinking Fund sufficient to retire annually the greater of (1) 2% of the greatest number of shares at any time theretofore outstanding less shares theretofore converted into Common Stock, or (2) that number of shares obtained by dividing an amount equal to 5% of consolidated net earnings of the Company and its restricted subsidiaries (as defined) for the preceding fiscal year (after taxes and after dividends on the Convertible Preferred Stock) by \$100. In addition to the foregoing, and among other things, the provisions of the Convertible Preferred Stock issue contain certain restrictions and limitations with respect to funded debt, issuance of additional shares of Preferred Stock, authorization of mergers or consolidations, etc.

Note G—The authorized shares of Common Stock include 538,597 shares reserved for issuance upon conversion of the 4 $\frac{1}{4}$ % Convertible Preferred Stock.

Note H—In order to standardize the accounting practices of all units, commencing February 3, 1952, certain divisions and subsidiaries of the Company changed their method of accounting for gross profit and/or carrying charges on installment sales from the installment basis to the accrual basis. Such change in method resulted in an increase in consolidated net profit for the year ended January 31, 1953 of approximately \$317,000 in excess of the amount which otherwise would have resulted had no change in method been made. The amount of gross profit and/or carrying charges deferred on the balance sheet of the Company and consolidated subsidiaries at February 2, 1952, less the applicable income tax, is reflected in the accompanying financial statements as a credit to earned surplus as of that date.

Note I—At January 31, 1953, the Company and its subsidiaries had 56 leases on real estate properties (exclusive of intercompany leases) with terms expiring more than three years from that date. The aggregate minimum annual rental under such leases amounted to approximately \$2,264,000, plus, in certain instances, charges for taxes and insurance, and in the case of 25 leases additional rental based on a percentage of sales over a fixed amount.

ERNST & ERNST 120 BROADWAY NEW YORK

BOARD OF DIRECTORS,
CITY STORES COMPANY,
PHILADELPHIA 5, PENNSYLVANIA

We have examined the statement of financial condition of City Stores Company and consolidated subsidiaries as of January 31, 1953, and the related statements of income and surplus for the year (52 weeks) ended on that date. The consolidated financial statements include the assets and liabilities of City Specialty Stores, Inc. and certain subsidiaries and results of operations of that company and of Oppenheim Collins & Co., Inc. and certain subsidiaries for the year (52 weeks) then ended, as reported by other independent accountants. Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records of the companies and such other auditing procedures as we considered necessary in the circumstances, except in respect of the two companies mentioned above.

In our opinion, based upon our examination and upon the reports of other independent accountants as to the financial statements of the two subsidiaries hereinbefore mentioned, the accompanying statement of financial condition and statements of income and surplus present fairly the consolidated financial position of City Stores Company and consolidated subsidiaries at January 31, 1953, and the consolidated results of operations for the year (52 weeks) then ended, in conformity with generally accepted accounting principles which, except for the change (which we approve) in the method of accounting for gross profit and/or carrying charges on installment sales as explained in Note H of Notes to Financial Statements, have been applied on a basis consistent with that of the preceding year.

ERNST & ERNST

New York, N. Y.
April 10, 1953.

